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McCormick
Corporation
1977 Annual Report



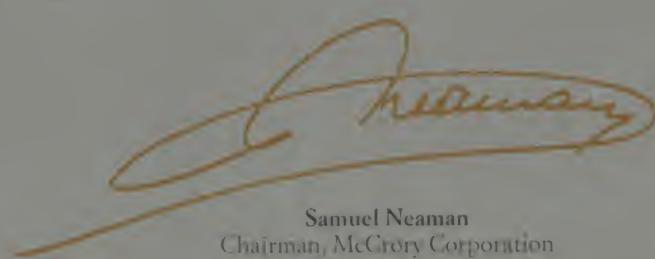
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WE BELIEVE IN THE EFFECTIVENESS OF THE MULTITUDE—A GREAT
MANY NORMAL PEOPLE WITH NORMAL TALENTS, WORKING TOGETHER,
SUPPORTING AND COMPENSATING FOR EACH OTHER.

WE BELIEVE IN GUIDED AUTONOMY—INDIVIDUALS USING THEIR INITIATIVE,
HAVING AUTHORITY TO ACT UPON IT, AND LOOKING TO FELLOW EXECUTIVES
FOR GUIDANCE IN FIELDS OF THEIR SPECIALTY.

WE TRY TO BREAK OUR BIG PROBLEMS INTO SMALL SEGMENTS AND ASSIGN
EACH TO AN INDIVIDUAL WHO IS TOTALLY DEDICATED TO SOLVING IT.
OUR OPERATING SYSTEMS AND PROCEDURES ARE DESIGNED TO PROVIDE
FOR INDIVIDUAL AS WELL AS CORPORATE SUCCESS. IN THE LONG RUN
THE TWO ARE INSEPARABLE.

FINALLY, WE BELIEVE IN A CONTINUOUS REEXAMINATION OF
EVERYTHING WE DO IN LIGHT OF NEW EXPERIENCE. THIS IS THE
ONLY WAY WE CAN MAINTAIN OUR PROGRESS.



A large, stylized signature in orange ink that reads "Samuel Neaman". Below the signature, the name is printed in a smaller, black, serif font: "Samuel Neaman" and "Chairman, McCrory Corporation".



McCRORY CORPORATION
KEY TO SUCCESSFUL
MANAGEMENT

I. FACTS

II. PLANS

III. EXECUTION

IV. SUPERVISION

FINANCIAL SUMMARY

	Fiscal 1971	Fiscal 1970
Sales	\$943,926,000	\$908,815,000
Net Income	\$ 15,401,000	\$ 14,136,000
Primary Earnings Per Common Share . . .	\$3.43	\$2.99
Fully Diluted Earnings Per Common Share . . .	\$2.34	\$2.43
Cash Dividends Per Common Share . . .	\$1.20	\$1.20

McCormick & Schmick Corporation 1977 Annual Report

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To Our Stockholders



IT GIVES ME GREAT PLEASURE to report that your company reached a new sales peak and achieved its eighth consecutive year of record earnings.

Primary earnings per common share were \$3.43, an increase of 44 cents over last year. Net income rose to \$15,401,000, an improvement of \$1,265,000 over fiscal 1970.

How this improvement happened is at least as important as the fact of its happening. Your company's growth was achieved as the result of the dedicated efforts of all personnel on every level. Particularly gratifying was the demonstration of the effectiveness of our management philosophy—normal people with normal talents, totally dedicated to the effective performance of the tasks set, working together, supporting each other's strengths and compensating for each other as needed.

I am proud of the effectiveness of our hard working employees because it is through their efforts that the company was able to continue its progress.

Elsewhere in this report you will find comments on the operations of each McCrory division. The managements of each of our divisions, in the face of varying problems, have boldly seized opportunities to demonstrate their high quality and to attain superior results.

Several years ago when I took the necessary steps to put McCrory on a sound footing to meet the challenges of this decade, I promised you that

we did not intend to relax our efforts. I then stated as our management policy the desire constantly to improve our operations to meet changing business conditions. Our management has followed this policy with splendid performance. We have done what we said we would do, and the results speak for themselves.

In keeping with your company's continuing program of acquiring its own shares when practicable and advantageous, we were able to purchase approximately 865,000 shares of McCormick common stock for treasury in response to a tender offer made in October, 1971. This reduced the number of shares outstanding at year end to approximately 3,807,000.

Shortly after the beginning of the current year, we proposed to the management of J. J. Newberry Co. that it merge with McCormick and become a wholly-owned subsidiary. That merger has been approved by both Boards of Directors, and the definitive agreements have been signed. As soon as possible, we shall set a date for the Annual Meeting of Stockholders at which a vote will be taken to approve the merger. You will receive a proxy statement which will furnish complete details, as well as information regarding the business and operations of Newberry, which now operates approximately 750 stores in the United States and Canada. We look forward to a happy and successful combination.

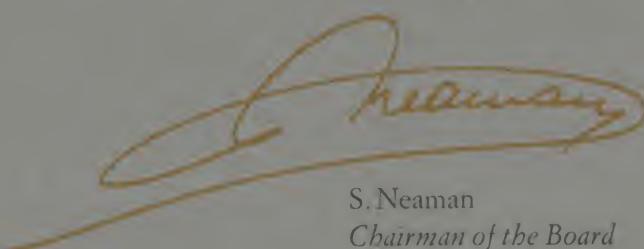
Each of the company's divisions continued to expand during fiscal 1971, and there are now more than 1,600 stores in operation in our various divisions. Expenditures for new stores and equipment during 1971 amounted to \$16.7 million. Your company's management has fostered the

development of personnel and the flow of ideas among its operating divisions. Thus, new concepts, new techniques and new skills are shared, and further development is encouraged. In turn, we are grateful for the dedicated efforts of our employees towards the service of our customers, who are, after all, the ultimate justification for the company's existence.

The problems of inflation are not yet behind us, and the recovery rate from recession has been slow. The impact of these factors upon mass merchandisers has been particularly heavy, and competition among retailers for a share of the consumer's dollar has been and continues to be intense. However, there now appear to be signs of improvement and I believe that your company is in a position to continue to move forward in the direction of further growth in the future.

Again, as in prior years, I would like to express my personal enthusiasm for the future of McCormick, and hope that each of our stockholders, our suppliers and my colleagues—our employees, share that enthusiasm.

Sincerely,



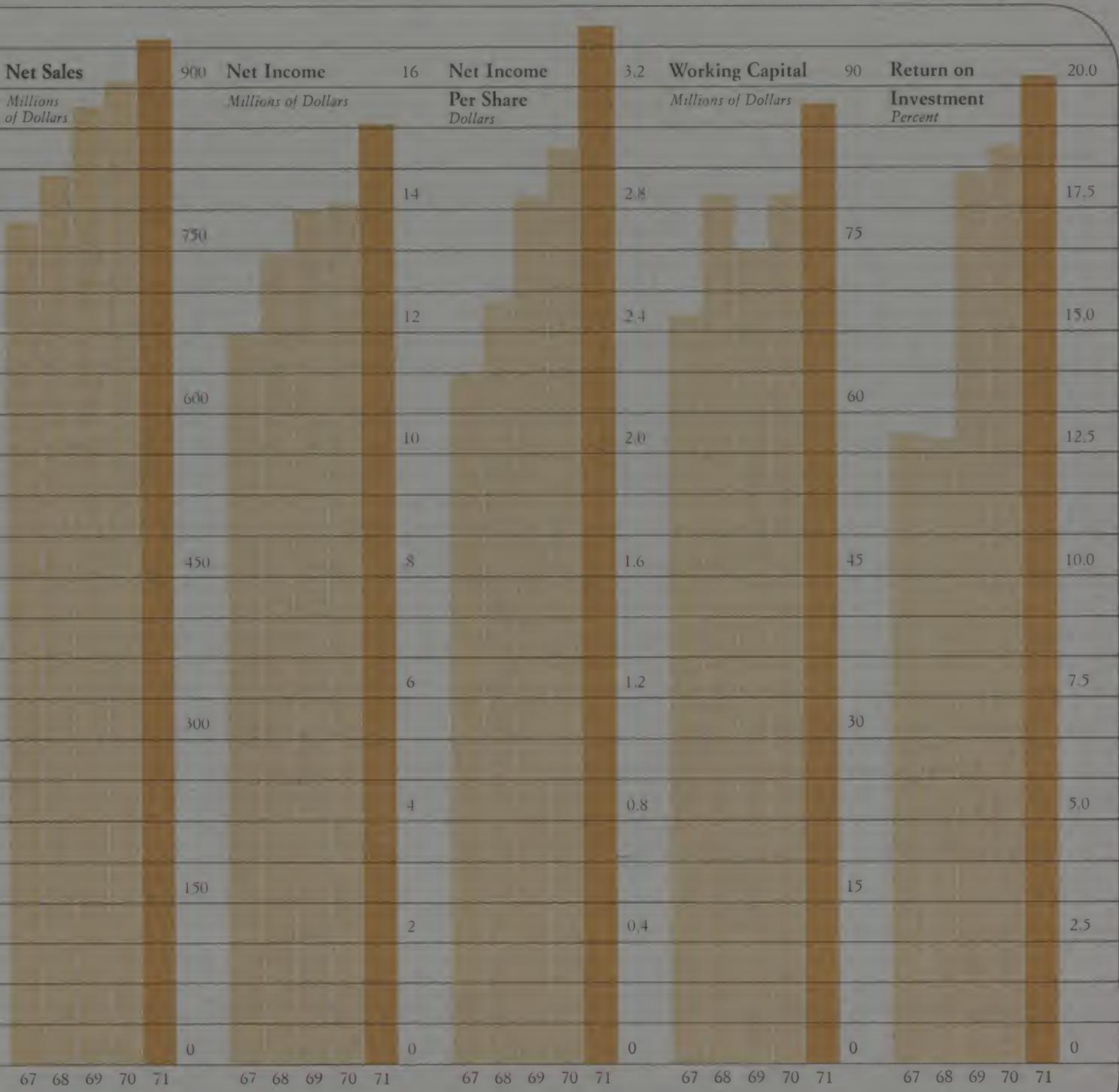
S. Neaman
Chairman of the Board

April 10, 1972

Statistical Review

Sales

MMG	\$269,454,000	1971
	\$268,464,000	1970
LERNER	\$382,825,000	1971
	\$354,393,000	1970
OTASCO	\$111,275,000	1971
	\$95,797,000	1970
S. KLEIN	\$180,372,000	1971
	\$190,161,000	1970
Number Store Units		
MMG	649	1971
	645	1970
LERNER	426	1971
	403	1970
OTASCO	540	1971
	511	1970
S. KLEIN	18	1971
	16	1970



*McCrary
Corporation*

Stanley H. Kunsberg
President & Treasurer



*McCrary-
McTullan-
Green*

Frank M. Patchen
President



Julius Sanditen
Vice Chairman &
Chief Executive Officer



Harold M. Lane, Jr.
President

Otasco

Lerner

Operating Reports

McCrory Corporation is a broadly based retailing organization with more than 1,600 stores throughout the United States. The principal members of the McCrory family are:

McCRORY-MCLELLAN-GREEN—one of the largest and most modern variety store chains in the country, with 649 stores in 38 states and Washington, D.C.

S. KLEIN—18 full-line, promotional department stores selling fashion and staple items in the New York-Philadelphia-Washington, D.C. metropolitan areas.

OTASCO STORES—automotive parts and accessories, outdoor, home and recreational merchandise with 540 outlets in 13 states.

LERNER SHOPS—the largest chain specializing in fashion apparel with 426 stores in 39 states, Washington, D.C. and Puerto Rico.

In February, 1972, a merger of J. J. Newberry Co. with McCrory was proposed and is subject to shareholder approvals. If that action is approved by shareholders, approximately 750 additional retail outlets in the variety, department store and specialty store categories located throughout the United States and Canada will become part of the McCrory organization.

McCrary- McLellan- Green

OFFICERS

President

Frank M. Patchen

Executive Vice President

John F. King

Senior Vice President

Travis B. Acker

National Store Operations Manager

Vice Presidents

Roger A. Elliott

Director of Manpower

Charles Gass

National Field Controller

Harold R. Hughes

Administration

Edward J. Luedtke

General Store Manager

Paul McClellan

National Store Merchandise Manager

Herbert S. Mortensen

National Restaurant Manager

Kenneth Phillips

Informatics

Robert S. Taub

Movement of Goods

Otis W. Wheeler

Head Buyer

Vice Presidents—Regional Managers

Dexter Strawther-Region I

William R. Tallman-Region II

Elson B. Hood-Region III

Newell W. Embley-Region IV

Newton S. McBrayer-Region V

Controller

George B. Stephens, Jr.

Assistant To The President

Loren C. Shockley

Director of New York Resident Buying Office

McCrary-McLellan-Green continues to lead the development of new concepts in variety retailing. During 1971, MMG moved one of its more significant concepts—the McCrary Automatic Replenishment System (MARS)—from an experimental to an operational status.

More than 200 MMG stores are now merchandised by an automatic computer-controlled system that takes "subjectivity" out of buying, replenishes basic merchandise and projects sales. MARS serves the interests of the consumer by insuring that the desired items are in the right store at the right time. It serves the interests of management by delivering increased profits through better utilization of both inventory and manpower resources.

In the area of internal organization, MMG during 1971 substantially strengthened its buying division to provide greater facility in meeting consumer trends. The increased buying staff also permits buyers to concentrate on fewer lines of merchandise so that they can utilize their expert knowledge in greater depth.

The key to aggressive merchandising and buying is flexibility, and this same flexibility has been made the theme of the MMG new store development program. Since MMG is not exclusively committed to any specific size, location or shape of store it can use to its maximum advantage more sites which become available in the regional shopping centers. Concepts have been developed that enable MMG to utilize a wide variety of store shapes. One such new concept is a "specialty variety store" with new, profit-oriented plans for traffic flow, merchandise control and decor—all leading to a new excitement and the general upgrading of individual stores. MMG is increasing its participation in the rapidly growing food service business, with in-store and free-standing restaurants and cafeterias.

MMG's training and development activities are weaving together many of the new concepts and carrying forward the strengths of the existing programs. "Programmed instruction" has a key role in introducing the new concepts and new systems to thousands of members of the MMG employee family throughout the country. By means of electronic devices, including audiovisual tapes, MMG has created a high-quality and uniform instructional program. What was described a year ago as "pioneering" in internal communications and training, with features such as MMG's own television and video-tape production studios, now has become an accepted and thoroughly efficient method of operation.

During the year, MMG opened 24 new or remodeled stores and closed 20 old or unprofitable units, bringing the total number of stores in operation to 649.

As a result of improved controls, automated buying procedures, advanced training and new store concepts, MMG increased its sales for the eighth consecutive year to \$269.5 million and realized pre-tax earnings in excess of \$18 million. MMG also continued to lead its industry with a pre-tax profit as a percentage of sales of 6.9 per cent.







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TODAY'S
SPECIAL
88¢

DIETETICS

S
ODIES

S. Klein

OFFICERS

Senior Vice Presidents

Ben Litwak

General Merchandise Manager

Samuel S. Brand

Management Information Systems

Vice Presidents

Charles Gass

Internal Audit

Stephen Jackel

General Store Manager

Harry Matlin

Group Merchandise Manager

Marvin Shenfeld

Informatics

Joseph Walker

Counsel & Secretary

Controller

Charles Witz

In 1971, S. Klein management extended and refined its systems and controls procedures. The trend during recent years of reducing the cost of handling merchandise advanced by means of computer-directed merchandising and distribution of goods. Effective controls and security programs are continuing to reduce shrinkage losses, thus minimizing the impact of an affliction plaguing the retail industry.

In anticipation of a new-type S. Klein store planned for opening during 1972, management concentrated on developing procedures and physical facilities geared to making stores more attractive to the consumer and more efficient for the retailer. The original S. Klein store on 14th Street in Manhattan has been an exciting proving ground for many of the ideas, equipment and fixtures which will ultimately enhance new S. Klein stores.

Among the techniques carried forward in 1971 was the relocation of merchandise from behind-the-scenes storage to the selling floor, reducing storage space and bringing maximum merchandise to customer view. This change increased the actual selling area of the store and also contributed to consumer excitement and buying. S. Klein has developed a new generation of store fixtures geared to this new retailing concept.

The new architecture and fixtures also reduce the need for executive personnel on the selling floor, thus increasing the time and concentration available to buyers to select and purchase merchandise.

Two new S. Klein stores in Levittown and Glenolden, Pennsylvania, were opened in March, 1972. Both of these new stores are modern, single-story 90,000 square foot units acquired from another retail organization. Interiors of both stores have been completely rebuilt to fit the new S. Klein concept which includes, among other features, a central checkout facility. These two stores will increase S. Klein's impact in the metropolitan Philadelphia market area.

The new type of smaller S. Klein store will develop one step further with the opening in August, 1972, of a 150,000-square-foot newly constructed unit in East Brunswick, New Jersey. This store has been created from the ground up to emphasize more prominent display of merchandise, an easier flow of customers and goods and improved operating efficiency. It is management's long-range plan to advance this new store concept in phase with the larger S. Klein stores. With one of the larger stores in each area as a central point, it will be possible to increase S. Klein's importance in selected market areas with smaller stores, each of which will include complete merchandise lines.

During 1971, S. Klein enhanced its fashion image with the development of new boutique and store-within-a-store concepts. Emphasis continued to shift during the year to soft goods and toward emphasizing value and fashion.

Reflecting the general economic conditions of 1971, sales of the S. Klein division for the year were \$180.4 million with pre-tax earnings of \$122,729. Management believes that the new systems and store expansion in 1972 will contribute to improved sales and earnings.



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McCormy Corporation

- McCrory-McLellan-Green
- S. Klein
- OTASCO
- Lerner



Otasco

OFFICERS

Vice Chairman & Chief Executive Officer

Julius Sanditen

Vice Chairman of Executive Committee

Ely G. Sanditen

President

Abe Brand

Executive Vice Presidents

A. A. McNatt

Edgar Sanditen

Vice Presidents

Irving Fenster

Sales Promotion

Don Mann

Store Operations

Robert Shireman

Associate Dealer Division

John Willis

Data Processing

Robert Behl

Atlanta Division

Secretary

Mark Colburn

OTASCO continued its pattern of expansion throughout the southern and southwestern states and recorded the best year of its 54-year history. This year's outstanding growth came from dramatically increased sales of both new and existing company and franchised associate stores. An expanded range of goods and services plus increased efficiency, both within the individual stores and in the central headquarters and distribution center, contributed to this record year.

OTASCO's sales were \$111.3 million during 1971, an all-time high, and pre-tax earnings of more than \$9.4 million were also a company record.

Store expansion included the opening of 34 new stores, bringing the total number of company-owned stores to 194, with 346 franchised associate stores. Five stores were closed in 1971. Twelve stores in the fast-growing OTASCO network also were remodeled during the year.

In its first full year of operation, the new 500,000-square-foot OTASCO distribution center and home office building in Tulsa made its contribution to the division's growth. The new center, which includes one of the largest warehouses in the state of Oklahoma, is also the home of OTASCO's new computer facilities. Computer control of inventory, buying and distribution, which has been pioneered throughout McCrory Corporation, also helped this division achieve greater efficiency during 1971.

New physical facilities and computers, however, have in no way diminished OTASCO's approach of offering more personal service to its customers. OTASCO has emphasized sales training for improved personal customer service. The results are larger sales of better quality merchandise which gives greater customer satisfaction. This program has been particularly appropriate in recent times with the advent of the consumer movements.

As a matter of corporate responsibility, OTASCO is continually reviewing its merchandise lines with special emphasis on quality, safety and value. Of particular significance in this regard is OTASCO's growth in sales and installation of replacement auto parts such as tune-up kits, mufflers, shocks, brakes and tires which are in the forefront of safety and the reduction of air pollution.

Already underway is OTASCO's ambitious growth plan for 1972, which includes many new stores and remodelings . . . expansion of merchandise lines . . . improved ordering and inventory controls with newer and more sophisticated electronic and testing centers . . . and a more aggressive merchandising and advertising program—all to serve better the ever-increasing needs of OTASCO customers.



BRUNSWICK TIRES

SAFETY

BRUNSWICK
TIRES
SAVE TIME!

SAVE NOW
with
BRUNSWICK TIRE
SAFETY

OPEN AN
ACCOUNT
Today!

BRUNSWICK
TIRES

OPEN AN
ACCOUNT
Today!





OFFICERS

President & Chief Executive Officer

Harold M. Lane, Jr.

Chairman of the Board & Executive Committee

Harold M. Lane, Sr.

Vice Chairman of the Executive Committee

Stanley H. Kunsberg

Executive Vice Presidents

Eugene Shaw

Karl L. Margolis

Senior Vice President & Treasurer

D. John Palladino

Senior Vice President & Secretary

Nathan B. Epstein

Senior Vice Presidents

Milton Seegal

Melvin J. Redmond

Robert L. Krill

Harold Greene

Arnold Friedman

Marc J. Reiss

David D. Greenwald

Vice Presidents

Abraham D. Sperber

Monte A. Wolfson

Belle Armstrong

Anne Bergman Weltman

Betty Vitale Duncan

Tully H. Scheiner

Max J. Miller

Jacob J. Scher

Samuel S. Brand

Fiscal 1971 marked another record sales and earnings year for Lerner Shops. The record performance for the year once again proved the strength of Lerner Shops and the organization's ability to meet local fashion demands on an almost instantaneous basis. Growth for the year was achieved despite economic and weather conditions that created retailing headaches.

During the year, 27 new Lerner Shops were opened, most of them in regional, closed mall shopping centers which now provide the major area for Lerner Shops' expansion. Four stores were closed during 1971 and at year end there were 426 Lerner Shops in operation, 241 of which are in major shopping centers. During the course of the year, 14 stores were extensively remodeled and enlarged, and 23 were modernized and improved, continuing Lerner's policy of keeping its stores at the peak of efficiency and attractiveness. Lerner Shops' plans for 1972 include the opening of 16 stores, all to be located in suburban shopping centers.

A key to the Lerner success in 1971 and, indeed, over its entire history, has been the company's commitment to fashion. Highly skilled buying and merchandising personnel are alert to trends as they emerge, and work with suppliers to have up-to-the-minute merchandise in the appropriate stores simultaneous with development of consumer interest.

A contributing factor to the success of this program has been the branch offices and distribution centers located throughout the country. The decentralized operations of these facilities permits a closer supervision of each of the Lerner Shops and, in turn, enables each store to react promptly to local fashion trends. During the recent year, the Lerner Shop customer was among the first to have a wide choice of the stylish long dresses, skinny rib tops and vests, suede accessories and the whole array of fashions that were popular during 1971. The entire Lerner organization is geared to keeping each of the shops in the fashion mainstream.

The result of Lerner Shops' so satisfying its customers was a sales increase in 1971 to \$382.8 million, with an increase in net earnings to \$16.7 million, approximately 12.5 per cent above the previous year.

Lerner Shops management looks forward to continually serving and satisfying its customers in 1972 with commensurate operating results.

Copies of the Lerner Stores annual report are available upon request to the Lerner Stores Corporation offices at 460 W. 33rd St., New York, N.Y. 10001.

LERNER SHOPS



Lerner Shops

J.C.

LE RINER
shops



LERNER SHOPS

OPEN

MONDAY

10:00 A.M.

TO 9:00 P.M.

TUESDAY

10:00 A.M.

TO 9:00 P.M.

WEDNESDAY

10:00 A.M.

TO 9:00 P.M.

THURSDAY

10:00 A.M.

TO 9:00 P.M.

FRIDAY

10:00 A.M.

TO 9:00 P.M.

SATURDAY

10:00 A.M.

SUNDAY

CLOSED

Financial Statements

CONSOLIDATED STATEMENT OF INCOME

	Year Ended January 31	
	1972	1971
Revenues:		
Sales	\$943,925,935	\$908,815,197
Other—net	2,072,262	3,397,862
	945,998,197	912,213,059
Costs and Expenses:		
Cost of goods sold	(78,865,529)	656,159,362
Selling, general and administrative expenses	202,116,806	193,021,630
Interest and debt expense	14,718,947	16,476,289
Depreciation and amortization	14,714,389	10,744,416
Federal income taxes	36,415,000	15,593,000
Income applicable to minority interest	6,760,457	5,856,552
	930,596,806	897,851,279
Income From Continuing Operations	(15,401,391)	14,361,780
Loss From Discontinued Operations—Net of		
Related Income Tax Effect	(225,619)	
Net Income	\$ (15,626,010)	\$ 14,136,161
Earnings Per Share of Common Stock:		
Primary	\$3.43	\$2.99
Fully diluted	\$2.34	\$2.43

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEET

Assets	January 31	
	1972	1971
Current Assets:		
Cash (including certificates of deposit)	\$ 28,580,833	\$ 19,872,118
Investment in Rapid-American Corporation 7%		
Debentures, at cost, which approximates market	—	3,457,295
Receivables, less allowances (\$2,200,829 and \$3,336,894)	9,232,484	9,579,732
Merchandise inventories	131,360,749	120,336,827
Prepaid expenses, etc.	5,671,631	5,376,856
Total Current Assets	174,851,697	158,622,828
Investments in and Advances to:		
Rapid-American Corporation, at cost	3,620,965	27,829,740
McCrory Credit Corporation, at equity	12,858,371	12,473,310
	16,479,336	40,303,050
Property and Equipment	236,461,663	231,988,801
Less accumulated depreciation and amortization	124,638,963	119,107,239
	111,822,700	112,881,562
Other Assets:		
Excess of cost of investments over related equities	20,627,148	20,627,148
Long-term receivable	7,406,106	7,436,962
Mortgages and sundry	1,271,342	1,296,321
Deferred charges	7,181,960	7,067,178
	36,488,556	36,427,609
	\$339,642,289	\$348,235,049

See Notes to Consolidated Financial Statements.

Liabilities and Stockholders' Equity**Current Liabilities:**

	January 31	
	1972	1971
Current maturities of long-term debt	\$ 455,804	\$ 792,538
Accounts payable	35,945,826	35,675,660
Accrued expenses and sundry	33,449,916	32,352,789
Federal income taxes:		
Current	8,466,927	3,662,291
Deferred	8,014,000	6,090,000
Total Current Liabilities	86,332,473	78,573,278

Long-Term Debt	123,908,885	123,782,458
Deferred Income Taxes (\$27,982,740 and \$32,003,587) and Other	53,592,942	36,502,327
Minority Interest in Subsidiary	51,926,976	24,182,978

Stockholders' Equity:

Preferred and preference stocks	15,754,200	15,799,900
Common stock, \$.50 par value, authorized 15,000,000 shares; issued 7,279,557 shares and 7,113,955 shares	5,639,778	3,556,977
Additional paid-in capital	76,917,868	73,363,554
Retained earnings	88,731,296	79,985,309
Less treasury common stock 3,472,093 shares and 2,650,926 shares, at cost, and equity in subsidiary's cost of its treasury stock, \$6,386,242 and \$6,797,303	(12,162,127)	(87,511,732)
	63,881,015	85,194,008
	\$339,612,289	\$348,235,049

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Source of Funds	Year Ended January 31	
	1972	1971
Operations:		
Net income	\$15,401,391	\$14,136,161
Charges not requiring current outlays:		
Depreciation and amortization	11,714,389	10,744,446
Deferred income taxes	789,000	5,563,059
Debt expense	809,237	1,212,751
Stock bonus plan expense	551,469	653,125
Income applicable to minority interest, less cash dividends of \$1,395,503 and		
\$1,081,888	5,375,536	4,774,664
	34,639,016	37,084,206
Proceeds on exercise of options and warrants	3,658,969	936,726
Long-term borrowing	—	3,600,000
Common stock exchanged for convertible debt	4,034,698	—
Debentures issued in tender offer, less discount	7,790,625	—
Cost of investments exchanged in tender offer	24,208,775	—
Property and equipment disposals	6,135,639	3,491,389
Long-term receivable arising from sale of lease	30,856	(7,436,962)
Other—net	(362,328)	594,857
	\$80,134,250	\$38,270,216
Application of Funds		
Additions to property and equipment	\$16,740,959	\$26,212,981
Dividends paid	6,018,523	6,218,231
Acquisition of 865,624 shares of common stock in tender offer	35,461,895	—
Payment of deferred income taxes	4,809,847	—
Conversion of long-term debt	4,034,698	—
Payments of long-term debt	4,598,654	914,985
Increase in working capital	8,469,674	4,924,019
	\$80,134,250	\$38,270,216
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	\$ 8,708,715	\$7,923,055
Investment in Rapid debentures	(3,457,295)	—
Receivables—net	(347,248)	(260,262)
Merchandise inventories	11,023,922	(5,018,935)
Prepaid expenses, etc.	300,775	5,619
	16,228,869	2,649,477
Decrease (increase) in current liabilities:		
Current maturities of long-term debt	356,754	920,874
Accounts payable	(270,166)	(4,986,956)
Accrued expenses and sundry	(1,097,127)	(250,268)
Federal income taxes	(6,728,636)	6,590,892
	(7,759,195)	2,274,542
Increase in working capital	\$ 8,469,674	\$4,924,019

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	Year Ended January 31	
	1972	1971
Balance, beginning of year	\$79,985,309	\$72,979,132
Add (Deduct):		
Net income	15,401,391	14,136,161
Dividends:		
Preferred and preference stocks	(851,453)	(878,650)
Common stock (\$1.20 per share)	(5,167,070)	(5,339,581)
Excess of cost of 56,499 and 59,825 shares of treasury stock issued under stock option plans over option price	(656,881)	(911,753)
Balance, end of year	\$88,751,296	\$79,985,309

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

Balance, beginning of year	\$73,363,554	\$72,616,835
Add (Deduct):		
Excess of principal amount of debentures and par value of preferred and preference stocks converted over par value of common stock issued	3,792,706	739,894
Excess of proceeds over par value of common stock issued on exercise of 1,943 and 345 warrants	37,888	6,728
Equity in certain transactions of subsidiary	(276,280)	97
Balance, end of year	\$76,917,868	\$73,363,554

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**Principles of Consolidation**

The consolidated financial statements include all subsidiaries, except McCormick Credit Corporation.

**Accounts Receivable
and McCormick Credit Corporation**

McCormick and its affiliates have agreements with McCormick Credit Corporation, under which certain customers' accounts receivable are assigned to the credit company and the credit company remits amounts equal to 90% of the amounts assigned, withholding 10% of the uncollected balances, repre-

senting the companies' equity therein. Under the agreements, the companies accept reassignment of any accounts in default, as defined. The 10% equity of McCormick and subsidiaries in assigned accounts receivable (the uncollected accounts receivable balances amount to \$56,795,000 and \$52,000,000 at January 31, 1972 and 1971, respectively) is included in receivables in the consolidated balance sheet. Collections in January (payable to McCormick Credit in February) from assigned customers' accounts (net of 10% equity) amounting to \$13,646,000 and \$12,562,000 respectively, have been deducted from receivables in the consolidated balance sheet.

McCrory Credit Corporation's condensed consolidated balance sheet at January 31, 1972 is summarized below:

Accounts receivable, less unearned discount	\$66,040,460
Cash	9,589,696
Other assets, less other liabilities	528,215
	<u>\$76,158,371</u>
Notes payable to banks	\$63,300,000
Notes payable to McCrory and subsidiary	8,000,000
McCrory's equity	4,858,371
	<u>\$76,158,371</u>

Net income of McCrory Credit Corporation for the years ended January 31, 1972 and 1971 of \$385,061 and \$222,679, respectively, is included in consolidated net income.

Merchandise Inventories

Merchandise inventories, at lower of cost or market, consist of the following:

	January 31	
	1972	1971
Merchandise at stores and warehouses:		
At retail method	\$ 84,846,710	\$ 81,006,793
At first-in, first-out cost	27,995,165	24,261,710
Merchandise in transit, at warehouses and at restaurants—at identified cost	<u>18,518,874</u>	<u>15,068,324</u>
Total	<u>\$131,360,749</u>	<u>\$120,336,827</u>

Investments

CONSOLIDATED SUBSIDIARIES:

At January 31, 1972 and 1971, McCrory owned 2,558,815 shares of the outstanding common stock of Lerner Stores Corporation (58.6% and 60.6% respectively).

The aggregate cost of investments exceeded equity in underlying net assets at dates of acquisition as follows: common stock of Lerner (\$8,720,000) and securities of S. Klein Department Stores, Inc. (\$11,907,148). Such excess purchase costs have been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since acquisition. Accordingly, at dates of acquisition, management adopted the policy of not amortizing such excess purchase costs, so long as there is no diminution in value of the related investments.

RAPID-AMERICAN CORPORATION (Parent Company):

McCrory owned at January 31, 1972, 77,684 shares of Rapid-American Corporation common stock and 155,368 redeemable warrants to purchase Rapid common stock at \$35 per share, expiring May 15, 1994. The common stock and warrants had an aggregate market quotation value of \$2,466,467 at January 31, 1972.

Recapitalization

Under a tender offer which expired November 30, 1971, McCrory acquired 865,624 shares of its common stock, and distributed in exchange therefor 519,374 shares of Rapid common stock, 1,038,748 Rapid warrants, \$3,462,495 in

cash and \$10,387,500 principal amount of McCrory 7½% sinking fund subordinated debentures, due May 15, 1994 (1971 issue).

Property and Equipment

Property and equipment, stated at cost, consist of the following:

	January 31	
	1972	1971
Furniture and fixtures and leasehold improvements	\$219,678,203	\$213,850,604
Store properties, warehouses and leased facilities	<u>16,783,460</u>	<u>18,138,197</u>
Total	<u>\$236,461,663</u>	<u>\$231,988,801</u>

McCrory and its subsidiaries provide for depreciation and amortization generally on the straight line method over the estimated service lives of the properties.

Long-Term Receivable

McCrory is to receive 85 quarterly instalments of \$62,500 and, commencing October 31, 1973, 20 annual instalments of \$343,000 in payment of the long-term receivable. The aggregate of instalments amounts to \$12,172,500, which was discounted at an interest rate of 5% per annum.

Long-Term Debt

	January 31	
	1972	1971
Notes payable to banks under Revolving Credit Agreement (a)	\$ 20,300,000	\$ 20,300,000
5½% sinking fund subordinated debentures, due August 15, 1976 (effective interest rate 6.6%) (b)	11,356,880	11,356,480
5% junior sinking fund subordinated debentures, due July 15, 1981 (c)	11,810,450	12,344,620
6½% sinking fund subordinated debentures, due Sept. 1, 1982 (effective interest rate 8.7%) (d)	9,323,092	9,523,589
10½% sinking fund subordinated debentures, due August 15, 1985 (effective interest rate 11.3%) (e)	11,830,760	11,831,160
6½% convertible subordinated debentures, due Feb. 15, 1992 (effective interest rate 6.9%) (f)	4,295,009	8,329,707
7½% sinking fund subordinated debentures, due May 15, 1994 (effective interest rate 9.5%) (g)	<u>70,387,500</u>	<u>60,000,000</u>
Sundry	<u>1,688,726</u>	<u>5,552,713</u>
Less unamortized discount	<u>140,992,417</u>	<u>139,238,269</u>
Long-term debt	<u>\$123,908,885</u>	<u>\$123,782,458</u>

- (a) 90 day promissory notes with interest at current prime rate (4¾% at January 31, 1972) renewable at the option of McCrory at each maturity date to June 30, 1973. It is McCrory's present intention to renew these notes until June 30, 1973.
- (b) Exclusive of \$17,321,792 at January 31, 1972 and 1971 which have been reacquired and cancelled and

in the year ended January 31, 1972 were used to satisfy sinking fund payments in full. A final payment in the amount of the outstanding debentures is due on August 15, 1976.

- (c) Exclusive of \$534,171 and \$130,780 at January 31, 1972 and 1971, respectively, which have been reacquired and are available for sinking fund payments. Annual sinking fund requirements are 2% of the aggregate principal amount outstanding on January 15, 1970 to and including 1974 and 5% of such amount thereafter to January 30, 1980.
- (d) Sinking fund requirements in each year based on original principal amount issued are as follows: 1972-1973 (2%), 1974-1976 (3%), 1977-1979 (4%), and 1980-1981 (5%).
- (e) Required annual sinking fund payments commence in 1974 at the rate of 5% of the aggregate principal amount outstanding at January 15, 1973 and continue through February 15, 1984.
- (f) Convertible at the option of the holder at the conversion price of \$25 principal amount of debentures per share of common stock to and including February 14, 1972, \$30 to and including February 14, 1977 and \$35 to and including February 15, 1992. During the year ended January 31, 1972, \$4,034,698 principal amount of these debentures was converted into 161,374 shares of common stock.
- (g) Required annual sinking fund payments commence in 1981 and continue through 1993.

The aggregate of long-term debt maturing during the five years ending January 31, 1977 is approximately as follows: 1973, \$456,000 (included in current liabilities); 1974, \$20,654,000; 1975, \$1,673,000; 1976, \$1,603,000 and 1977, \$13,514,000. The year 1974 includes \$20,300,000 of notes payable to banks under Revolving Credit Agreement (see [a] above).

Agreements covering certain indebtedness of McCormick contain covenants concerning working capital, additional indebtedness, limitations on the declaration and payment of dividends, restrictions on transactions in capital stock, etc. At January 31, 1972, approximately \$24,000,000 of retained earnings was free of such restrictions.

Federal Income Taxes

For Federal income tax purposes guideline methods of computing depreciation and the instalment method of reporting certain sales have been used. The use of these methods has resulted in tax deferrals which have been charged against income and credited to deferred income taxes, of which the portion relating to instalment sales has been included in current liabilities.

McCormick uses the flow-through method of accounting for the investment tax credit. Accordingly, \$526,000 and \$29,000 in the years ended January 31, 1972 and 1971, respectively, were applied as a reduction of the current tax provision.

Preferred and Preference Stock and Common Stock Purchase Warrants

At January 31, 1972, 157,542 shares of \$100 par value preferred and preference stock were outstanding (aggregate par value \$15,754,200; aggregate redemption amount \$17,181,323).

Class of Stock	Author- ized	Out- standing	Redemp- tion Price	Conver- sion Rate	Common Shares Reserved
3 1/2% preferred	1,562	1,562	\$104	5 for 1	7,810
\$6 preference	94,725	94,725	115	3/14 for 1	20,298
5 1/2% preference					
B	1,824	1,292	100	—	—
4 1/2% preference					
B	60,201	59,963	100	—	—
				157,542	28,108

During the years ended January 31, 1972 and 1971, 457 and 7,516 shares of preferred and preference stocks, respectively, were converted into 2,285 and 23,315 shares of common stock, respectively.

At January 31, 1972 there were outstanding 297,094 warrants (expiring March 15, 1976) to purchase McCormick common stock at \$20 per share and 2,935,096 warrants (expiring March 15, 1981) to purchase McCormick common stock at \$20 per share through March 15, 1976, and thereafter at \$22.50 per share.

Pension Plans

McCormick and Lerner have non-contributory pension plans covering certain of their employees. Pension costs accrued are funded as required. For the years ended January 31, 1972 and 1971 these costs amounted to \$697,000 and \$665,000, respectively. The past service costs in respect of certain of these plans were approximately \$1,750,000 at January 31, 1972, which is being amortized over the next 27 years.

Stock Option and Stock Bonus Plans

The following summarizes the common stock option activity for the year ended January 31, 1972:

	1961 Plan	1964 Plan	1967 Plan
Option price range	\$18.05- 21.50	\$16.125- 19.875	\$16.50- 32.625
Shares			
Outstanding February 1, 1971	1,900	71,265	111,096
Transactions during the year:			
Exercised	(1,400)	(28,400)	(26,699)
Cancelled	—	(37,000)	(20,500)
Outstanding January 31, 1972	500	5,865	63,897
At January 31, 1972:			
Exercisable	500	5,865	55,958
Available for grant	None	165,870	76,838

During the year ended January 31, 1972 options were exercised at an aggregate option price of \$1,114,866. In addition, 435 shares of treasury stock were issued to employees for common stock service awards.

During the year ended January 31, 1972 McCrory under its management stock bonus plans repurchased 12,477 shares. At that date, 32,254 shares were available for allocation. The excess of market value of such shares on the date of allocation over the par value thereof is being charged to income ratably over periods not exceeding eight years from date of issuance.

Earnings Per Share of Common Stock

Primary earnings per share is based on the weighted average number of common shares outstanding during each year. Fully diluted earnings per share has been computed assuming conversion of all convertible securities when the effect would be dilutive. This calculation also assumes the issuance of additional common shares on exercise of stock options and warrants with a portion of the proceeds used to acquire treasury shares and the balance used to reduce outstanding debt.

As a result of the increase in market value of McCrory common stock, the computation of fully diluted earnings per share gave effect to the assumed exercise of warrants and options during the entire year ended January 31, 1972, but for only a portion of the year ended January 31, 1971. Therefore, fully diluted earnings per share decreased although primary earnings per share increased.

Commitments and Contingencies

There are claims pending against McCrory and subsidiaries together with other contingencies. Management and counsel are of the opinion that the ultimate liability, if any, will not materially affect the business or the consolidated financial position of McCrory and its subsidiaries. At January 31, 1972 the minimum annual rentals on property leased to McCrory and its subsidiaries under leases expiring after January 1975 amount to approximately \$42,500,000 plus, in certain instances, real estate taxes, insurance, etc.

Proposed Merger with J. J. Newberry Co.

On February 16, 1972, the Board of Directors of McCrory approved a proposal for a merger with J. J. Newberry Co. McCrory will offer to Newberry stockholders for each share of Newberry common stock, either 0.7 share of McCrory common stock or \$30 principal amount of a new McCrory 7 $\frac{5}{8}$ % sinking fund subordinated debenture due in 1997. As of January 31, 1972, Newberry reported 1,944,390 shares of common stock outstanding.

On February 8, 1972, through a public cash tender offer at \$22.00 per share, Rapid-American Corporation acquired 950,000 shares of Newberry common stock.

ACCOUNTANTS' OPINION

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

To the Board of Directors and Stockholders of McCrory Corporation:

We have examined the consolidated balance sheet of McCrory Corporation and subsidiary companies as of January 31, 1972 and 1971 and the related statements of income, retained earnings, additional paid-in capital and changes in financial position for the two years ended January 31, 1972. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of Lerner Stores Corporation and its subsidiaries (whose total assets constitute approximately 38% and 32%, respectively, of the consolidated total at January 31, 1972 and 1971, and whose sales constitute approximately 41% and 39%, respectively, of consolidated sales for the years then ended); however, we were furnished with a report of other accountants on their examination of the financial statements of that company and its subsidiaries for the two years ended January 31, 1972.

In our opinion, based on our examination and the report of other accountants referred to above, the above-mentioned financial statements present fairly the financial position of McCrory Corporation and subsidiary companies at January 31, 1972 and 1971 and the results of their operations and the changes in their financial position for the two years ended January 31, 1972, in conformity with generally accepted accounting principles applied on a consistent basis.

March 20, 1972

Haskins & Sells

OFFICERS	BOARD OF DIRECTORS	COMMITTEE CHAIRMEN
SAMUEL NEAMAN Chairman of the Board	ISIDORE A. BECKER	LEONARD SPANGENBERG Executive Committee
STANLEY H. KUNSBERG President & Treasurer	PATRICK J. CLIFFORD	BERNARD KOBROVSKY Salary and Compensation Committee and Audit Committee
JULIUS SANDITEN Executive Vice President	BERNARD KOBROVSKY	STANLEY H. KUNSBERG Stock Option Committee
HARRY H. WACHTEL Executive Vice President	*STANLEY H. KUNSBERG	
SAMUEL S. BRAND Vice President	*HAROLD M. LANE, SR.	
CHARLES GASS Vice President	*HAROLD M. LANE, JR.	J. S. WEINSTEIN Acquisition and Diversification Committee
NORMAN M. MALLOR Vice President & Controller	LEONARD C. LANE	
ELY G. SANDITEN Vice President	SAMUEL J. LEVY	
SEYMOUR GREENE Secretary	*SAMUEL NEAMAN	
	*BERT R. PRALL	
	MESHULAM RIKLIS	
	*JULIUS SANDITEN	
	*LEONARD SPANGENBERG	
	JEROME D. TWOMEY	
	HARRY H. WACITEL	
	J. S. WEINSTEIN	
	*Member of Executive Committee	

AUDITORS	Haskins & Sells, New York, N.Y.
GENERAL COUNSEL	Rubin Wachtel Baum & Levin, New York, N.Y.
PUBLIC RELATIONS	Rubenstein, Wolfson & Co., New York, N.Y.
TRANSFER AGENTS	<p><i>Common Stock, 5½% Preference B Stock, 4½% Preference B Stock</i> Chemical Bank, Stockholder Relations Department Box 5072, Church St. Station, New York, N.Y. 10049 and First National Bank of Chicago, Stock Transfer Division 1 First National Plaza, Chicago, Ill. 60670</p> <p><i>3½% Preferred Stock, \$6 Preference Stock</i> Morgan Guaranty Trust Company of New York, Stockholder Relations Department, 30 West Broadway, New York, N.Y. 10015 and First National Bank of Chicago, Stock Transfer Division, 1 First National Plaza, Chicago, Ill. 60670</p>
REGISTRARS	<p><i>Common Stock, 5½% Preference B Stock</i> Morgan Guaranty Trust Company of New York, Stockholder Relations Department, 30 West Broadway, New York, N.Y. 10015 and Continental Illinois National Bank & Trust Co. of Chicago, Stock Registration Department, 200 West Jackson St., Chicago, Ill. 60690</p> <p><i>4½% Preference B Stock</i> The Chase Manhattan Bank, N.A., Transfer Administration, 1 New York Plaza, New York, N.Y. 10015 and Continental Illinois National Bank & Trust Co. of Chicago, Stock Registration Department, 200 West Jackson St., Chicago, Ill. 60690</p> <p><i>3½% Preferred Stock, \$6 Preference Stock</i> Chemical Bank, Stockholder Relations Department, Box 5072, Church St. Station, New York, N.Y. 10049 and Continental Illinois National Bank & Trust Co. of Chicago, Stock Registration Department, 200 West Jackson St., Chicago, Ill. 60690</p>
EXECUTIVE OFFICES	360 Park Avenue South, New York, N.Y. 10010

*McCormick
Corporation*

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